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NEWS RELEASE

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Proposals to Address Insurance Cancellations Could Threaten Viability of New ACA Insurance Markets

WASHINGTON – President Obama’s plan to provide states with the ability to reverse health insurance cancellations, and related proposals in Congress, could lead to negative consequences for consumers, health insurers, and the federal government, the American Academy of Actuaries’ Health Practice Council warned today.

As state and federal policymakers consider action, they need to recognize these consequences, which could include: higher average medical spending among those purchasing new coverage, additional program costs for the federal government, and higher health insurance premiums in 2015.

“Finding an appropriate balance between allowing consumers to maintain current coverage and ensuring a sustainable insurance market requires carefully weighing the potential costs as well as the potential benefits of proposed fixes,” said Cori Uccello, the Academy’s senior health fellow.

“Changing the ACA provisions could alter the dynamics of the insurance market, creating two parallel markets operating under different rules, thereby threatening the viability of insurance markets operating under the new rules.”

Allowing consumers to retain cancelled plans could affect the composition of health insurance risk pools. In particular, if lower-cost individuals retain their prior coverage, and higher-cost people move to new coverage, the medical spending for those purchasing new coverage could be higher than expected. Other consequences could include:

- Premiums approved for 2014 may not adequately cover the cost of providing benefits for an enrollee population with higher claims than anticipated in the premium calculations.
- Costs to the federal government could increase as higher-than-expected average medical claims are more likely to trigger risk-corridor payments.

(MORE)

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- Relaxing the plan cancellation requirements could increase premiums for 2015. Insurers cannot increase premiums in future years to make up for prior losses. However, assumptions regarding the composition of the risk pool would reflect plan experience in 2014.

The Academy's Health Practice Council will send a letter to federal policymakers outlining these potential risks and urging them to weigh their implications when considering changing ACA implementation.

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The American Academy of Actuaries is a 17,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.